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Office of Internal Audit

Planning and Design Services

Revenue Administration





Audit Report

Planning and Design Services

Revenue Administration

September 2006

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Transmittal Letter

September 27, 2006

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Re: Audit of Planning and Design Services' Revenue Administration

Introduction

The operating records and procedures for revenue activity administered by Planning and Design Services were examined. The primary focus of the audit was the operational and fiscal administration of the activity. This included how Planning and Design processes, records, and monitors the activity.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating procedures for revenue administered by Planning and Design Services were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed for transactions from fiscal year 2006. Activity reviewed included Planning and Design Services' cash management database, application / docket files, bank statements, and financial postings.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not reveal all weaknesses because it was based on selective review of data.

Opinion

It is our opinion that the overall internal control structure for Planning and Design Services' revenue administration is weak. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

Opportunities to strengthen Planning and Design Services' revenue administration were noted in various areas. Examples of issues include the following.

- **Cash Management Database.** Planning and Design Services uses a database to process revenue transactions. The database lacks the inherent internal controls and security features of a true cash management system. For example, a transaction could be processed, funds collected, and the transaction could be removed from the system prior to daily reconciling reports being run. This increases the risk that revenue could be misdirected without detection.
- **General Administration.** There were several issues with the processing of revenue activity that weaken the internal control structure.
 - There is a lack of segregation of duties in that the individual that processes daily transactions could also perform daily reconciliations.
 - Funds are not adequately safeguarded.
 - Accountability is weakened in that multiple employees work in one cash drawer.

- The process of billing clients for copy charges is manual and inefficient.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of Planning and Design Services revenue administration.

Corrective Action Plan

Representatives from Planning and Design Services have reviewed the results and are committed to addressing the issues noted. The department's corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with Planning and Design Services to ensure the actions taken are effective to address the issues noted.

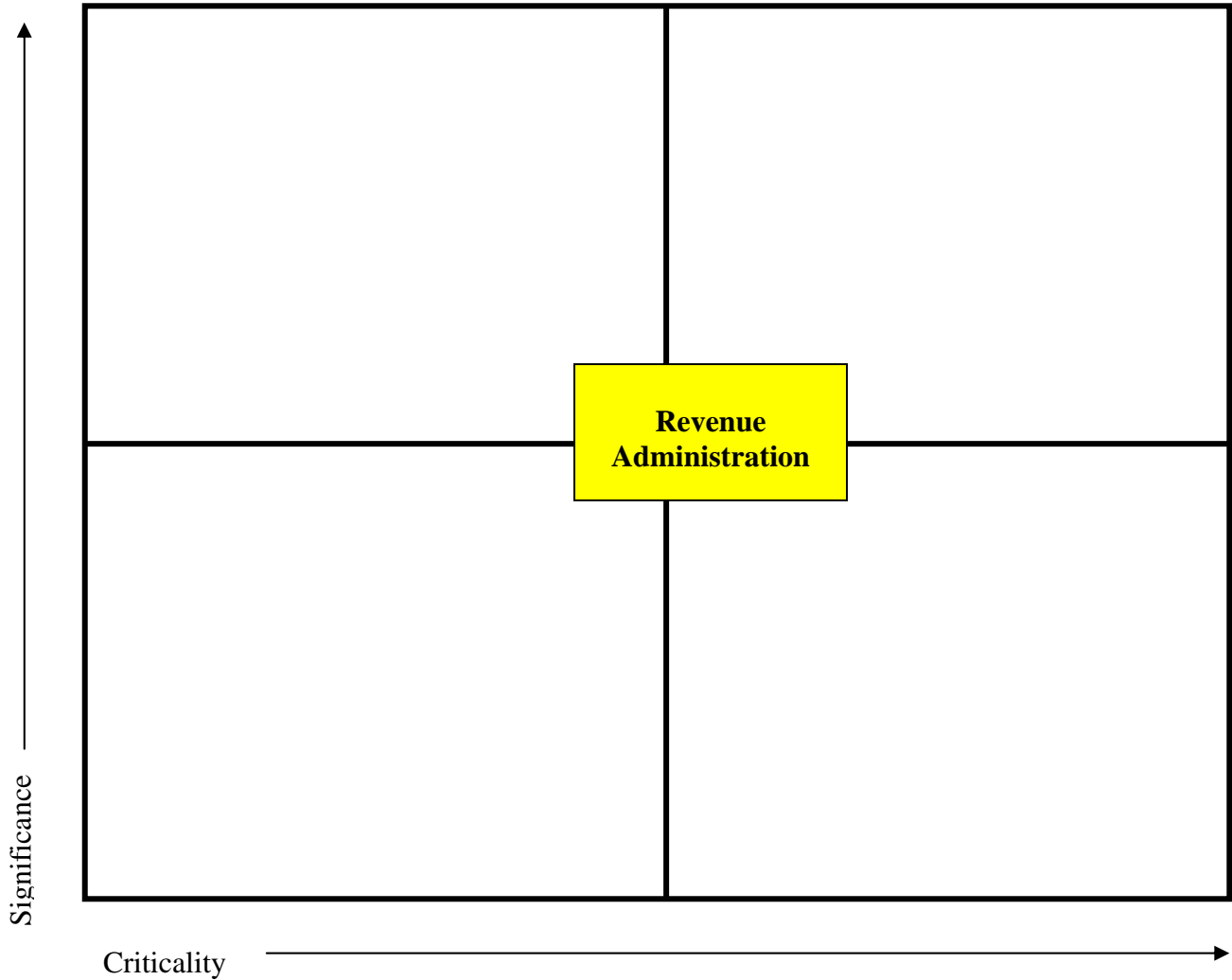
Sincerely,



Michael S. Norman, CIA, CGAP
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Community Development
Director of Planning and Design Services

Internal Control Rating



<u>Legend</u>			
<u>Criteria</u> <u>Issues</u>	<u>Satisfactory</u> Not likely to impact operations.	<u>Weak</u> Impact on operations likely contained.	<u>Inadequate</u> Impact on operations likely widespread or compounding.
<u>Controls</u>	<u>Effective.</u>	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<u>Policy Compliance</u>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<u>Image</u>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<u>Corrective Action</u>	May be necessary.	Prompt.	Immediate.

Background

The Louisville Metro Planning and Design Services department provides planning services that enhance and protect the economic, environmental, cultural, and historical resources of the community. The department reviews and promotes appropriate patterns of growth in the community and provides planning and implementation of public improvement projects. Services include development, planning, information services, urban design, staffing of Planning Commission, Board of Zoning Adjustment, and Landmarks Commission, as well as transportation services.

Planning and Design Services processes revenue from application fees associated with variances in zoning, subdivisions, landscape reviews, land use, certifications, and subscriptions. The fees vary depending on the type of application; however, all the application fees are processed in a similar manner. The fiscal year 2006 operating budget for the revenue associated with application fees was approximately \$525,000.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of Planning and Design Services revenue administration.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

A formal study of the internal control structure was conducted in order to obtain a sufficient understanding to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials

A draft report was issued to Planning and Design Services on August 14, 2006. An exit conference was held at the Planning and Design Services administrative office on September 8, 2006. Attending were Charles Cash, Dawn Warrick, Sharon Smith, and Paula Vincent representing Planning and Design Services; Mike Norman, Mary Ann Wheatley, and Kimberly Bates representing Internal Audit. Final audit results were discussed.

The views of Planning and Design Services officials were received on September 26, 2006 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

Observations and Recommendations

Scope:

Planning and Design Services' procedures for administering revenue activity were reviewed. The primary focus of the review was the operational and fiscal administration of the activity. This included the processing, recording, and monitoring of the activity. Applicable personnel were interviewed in order to gain a thorough understanding of the processes.

A sample of revenue activity was judgmentally selected for review from the period January 1, 2006 through May 31, 2006. The review focused on information recorded in the Planning and Design Services' cash management database, application / docket files, bank deposits, and the Louisville Metro financial system. The information was reviewed to ensure activity was processed appropriately. The results are as follows.

Observations

There were some issues noted with Planning and Design Services administration of revenue activity. As a result, the internal control structure is weakened and its effectiveness impaired. The observations are as follows:

- #1 Cash Management Database
- #2 General Administration

Details of these begin on the following page.

#1 - Cash Management Database

Some issues were noted with the system used to process Planning and Design Services application fees. As a result, the internal control structure is weakened and its effectiveness impaired. The following issues were noted.

- The system used by Planning and Design Services is a database that was developed in-house. The employee that developed the database is no longer with Metro Government. The database lacks the inherent internal controls of a true cash management system. Specific problems include the following.
 - The security features that are standard on a cash management system to provide for an audit trail of transaction activity do not exist with the Planning and Design Services database. For example, a transaction could be removed from the database before the daily recap report is printed and the daily transactions reconciled. This increases the risk that revenue could be collected and misdirected without detection.
 - There are no system controls to ensure that all necessary steps are performed in order for transactions to be properly processed and saved. For example, if a receipt is not printed for a transaction, the data is permanently lost.
 - Refunds are not processed through the database. Though the database is referenced for informational purposes, the refund is actually processed through the Metro's financial system. There is no documentation made in the system to indicate the transaction was refunded. Therefore, database queries or summary reports could not be relied upon for true activity totals.
- The cash management database is located on a Planning and Design Services shared network. It is not known who has access to the database or if security measures are in place to limit access to authorized users. As a result, accountability over revenue transactions is greatly diminished.

Recommendations

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Planning and Design Services management stated that in the future they intend to process the fees and payments for the services they provide on the Metro Government Midas system. Planning and Design Services should continue with their efforts to begin using the Midas system (i.e. cashiering module) in that it possesses more inherent controls than the current database. It should be noted that the Midas cashiering module is already used in the Metro Development Center. A few modifications to the system could provide Planning and Design Services with the use of a cash management system specifically designed to minimize security risks and strengthen controls.

- ✓ Until a new cash management system is implemented, Planning and Design Services should ensure compensating controls are in place to mitigate weaknesses of the current database (i.e. supervisory reviews should be performed and monitoring reports developed to help ensure all activity is properly accounted for).
- ✓ No matter the type of cashiering system used, care should be taken to ensure revenue transactions are processed accurately and completely, to include refunds. This will help ensure the system is reflecting true activity totals.
- ✓ Planning and Design Services personnel should ensure that only individuals with a business need have access to the cash management database. Access should be restricted according to specific needs (i.e. read-only, update ability, etc.).
- ✓ Planning and Design Services should contact Metro Technology for assistance and support of their current cash management database.

Planning and Design Services' Corrective Action Plan

As stated above, Planning and Design Services will continue efforts to begin using the Midas system (i.e. cashiering module). Once the intake system goes live and is fully operational (another 3-6 months), we will begin work to move towards implementing the cashiering module. In the interim, the department will contact Metro Technology to request assistance and support in determining changes needed in our current cash management database or the use of an alternative system being used elsewhere in Metro. We will also request password protection for the cash management database to provide greater security and limit access according to specific needs.

#2 - General Administration

There were some problems noted with the general administration of Planning and Design Services revenue. As a result, the internal control structure is weakened and its effectiveness impaired. The following weaknesses were noted.

- There is not proper segregation of duties with regards to the reconciliation of daily activity. The Planning Technicians process daily transactions, as well as perform the daily reconciliations. The risk that funds could be diverted for personal use, and go undetected, is greatly increased by inadequate segregation of duties. This is especially true in an environment where the cashier system's internal controls are weak.
- Funds collected from daily transactions are not adequately safeguarded overnight. Though they are stored in a locked file cabinet at the end of each day, the key to the cabinet is maintained in an easily accessible area. In addition, funds used for the processing of copy fees are stored in a similar manner. Anyone aware of the keys' locations could access the funds.
- Accountability is greatly weakened in that all the Planning Technicians process daily transactions from the same cashier drawer. The risks are somewhat lessened since payments are mostly made with checks.
- Shortages and overages are not properly reflected in the reconciliation process. For example, in cases where too much cash has been collected, a receipt is created in the system with a client name of "customer", and the extra cash is coded to the "copies" account.
- There are no backup personnel designated to process deposits in the Business Specialist's absence. This could result in unnecessary delays and noncompliance with Metro cash management policies (i.e. deposits should be weekly or when activity reaches \$1,000).
- Although the Business Specialist monitors the financial accounts for Planning and Design Services revenue activity, there is no documented reconciliation to ensure funds have posted to the correct accounts and proper effective period.
- The process used to bill customers for copy charges is somewhat manual and inefficient. It does not provide adequate support for copy amounts charged or support of billings and payments.
 - A log book is used to track copies that clients make. The book only notes the client name and copy charge amount. It does not note the number or type of copies made so amounts can not be verified as appropriate.
 - Clients are not invoiced for copy charges timely (i.e. on a monthly basis). Every three to four months, copy charges are tallied and the client is billed. A notation

is made in the log book that an invoice was sent. As payments are received, payment information is noted beside the applicable billing notation. Some problems were noted with a review of the copy charges log book.

- There were two cases where payments were not noted for the invoices indicated. It is uncertain whether the payments were ever received or if received and not noted in the log book.
- There were six cases where it appeared the client had not been invoiced for copy charges.

The practice of billing clients for copy charges may not be an efficient use of resources when considering the amount of revenue collected.

Recommendations

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Segregation of duties should be incorporated into Planning and Design Services' revenue processing. Daily reconciliations should be performed by supervisory personnel or someone independent of the daily activity processing. Ideally, funds should be counted at the end of each day in the presence of two individuals.
- ✓ Funds should be properly secured at all times, ideally in a locked safe. Access to the funds should be limited to as few individuals as possible. If a safe is not a feasible means of storage, then keys to cabinets containing funds should be properly stored to prohibit unauthorized individuals from access.
- ✓ Individual cash drawers should be used to process transactions in order to provide proper accountability over funds. A move to a centralized system and cashiering function would help address the accountability issue. This would allow for an individual separate from the activity processing to collect and process payments.
- ✓ A major component of any reporting system is proper reconciliation and monitoring. Daily reconciliations should be documented and any discrepancies should be properly noted (i.e. shortages and overages).
- ✓ Backup personnel should be designated to cover in the absence of key personnel. This is especially important when it involves the timeliness of deposits.
- ✓ Transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function. The reconciliation should be documented.

- ✓ Planning and Design Services personnel should evaluate the process of billing clients for copy charges. Since copy fees are relatively small in amount, it may be beneficial if clients were required to pay as copies are made. This would decrease the administrative responsibilities and associated costs involved with billing clients.
- ✓ If it is decided that clients will still be invoiced for copy charges, then Planning and Design Services personnel should explore the possibility of using the Louisville Metro Accounts Receivable system for billing customers. The use of the system will help ensure that all revenue is billed and collected in a consistent and timely manner and allow for proper segregation of duties. In addition, processing transactions through this system credits the revenue to the applicable financial center when invoiced, not collected. This would also decrease the administrative responsibilities associated with the billings. Planning and Design Services personnel should contact Metro Finance for assistance.

Planning and Design Services' Corrective Action Plan

The following corrective actions will be implemented to address the issues associated with the general administration of revenue activity.

- The department will establish new written procedures for daily reconciliation and will have personnel independent of the daily activity processing provide oversight of this process.
- All receipts will be sealed in an envelope and stored in the PDS safe daily. We will establish written internal guidelines regarding security of funds and establishing a chain of custody.
- The department will continue to move toward implementation of Hansen/Midas but in the interim will contact Metro Technology to develop appropriate report queries for specific individuals or daily reporting, and to provide unique logons for each customer service team member to ensure greater accountability.
- The department will immediately document the daily reconciliation by noting the amount of cash, checks, total on hand, and report the total or difference. We will establish a corrective action for overages or shortages (using a pre-determined threshold).
- Backup staffing will be identified and cross-trained to ensure deposits are made in a timely manner.
- Revenue distribution is done by electronic JV, per instructions from Finance. While transactions are currently reconciled monthly to LEAP reports, we will immediately begin to document this monthly reconciliation.

- This billing process for copy charges was initiated as a service for routine customers. Once Midas/Hansen is fully implemented, this service will cease. We propose to continue as normal until implementation of Hansen but will contact Metro Technology for suggestions regarding making our current system more accountable.

The department has explored the possibility of using the Louisville Metro Accounts Receivable system for billing customers, however, at this time Metro Accounts Receivable is set-up for miscellaneous invoices for services that Metro provides only (such as services the Health Dept. provides), not the processing of a department's daily billing operation. Metro Accounts Receivable did not rule out this option completely; they would be open to discussion depending upon the number of invoices and charge customers.